

**KANSAI PAINTS LANKA
(PRIVATE) LIMITED**

**FINANCIAL STATEMENTS
31st MARCH 2019**



KPMG
(Chartered Accountants)
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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF KANSAI PAINTS LANKA (PRIVATE) LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Kansai Paints Lanka (Private) Limited ("the Company"), which comprise the statement of financial position as at March 31, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at March 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. These financial statements does not include the other information.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at Sri Lanka Accounting and Auditing Standards website at: <http://slaasc.com/auditing/auditorsresponsibility.php>. This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

A handwritten signature of 'KPMG' in black ink, written in a stylized, cursive-like font.

CHARTERED ACCOUNTANTS

Colombo, Sri Lanka
April 29, 2019

KANSAI PAINTS LANKA (PRIVATE) LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st March,

	<u>Note</u>	2019 <u>Rs.</u>	2018 <u>Rs.</u>
Revenue	4	312,455,290	206,150,349
Cost of sales		(259,715,308)	(160,631,849)
Gross profit		<u>52,739,982</u>	<u>45,518,500</u>
Other income	5	1,021,089	832,537
Royalty		(2,974,574)	(1,931,121)
Administrative expenses		(72,574,261)	(61,674,646)
Selling and distribution expenses		(139,366,972)	(107,106,047)
Other operating expenses		(32,386,505)	(24,245,981)
Loss from operations	6	<u>(193,541,242)</u>	<u>(148,606,759)</u>
Finance income		-	305,602
Finance cost		(58,209,267)	(16,101,005)
Net finance expense	7	(58,209,267)	(15,795,403)
Loss before taxation		<u>(251,750,509)</u>	<u>(164,402,162)</u>
Income tax	8	-	(55,620)
Loss for the year		<u>(251,750,509)</u>	<u>(164,457,782)</u>
Other comprehensive income			
<u>Items that will not be reclassified to profit or loss</u>			
Actuarial gain on retirement benefit obligation	17	117,980	-
Total comprehensive income for the year		<u>(251,632,529)</u>	<u>(164,457,782)</u>

*The notes form an integral part of these financial statements.
Figures in brackets indicate deductions.*

KANSAI PAINTS LANKA (PRIVATE) LIMITED
STATEMENT OF FINANCIAL POSITION

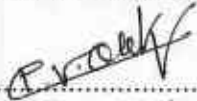
As at 31st March,

	<u>Note</u>	2019 <u>Rs.</u>	2018 <u>Rs.</u>
ASSETS			
Non-current assets			
Property, plant and equipment	9 A	475,100,085	437,075,281
Intangible assets	9 B	4,963,236	6,059,819
Capital work-in-progress	10	-	69,529,539
Non-refundable lease deposit	11	21,897,248	22,377,503
Total non-current assets		<u>501,960,569</u>	<u>535,042,143</u>
Current assets			
Inventories	12	205,692,814	212,525,534
Non-refundable lease deposit	11	480,257	480,257
Deposits, advances and prepayments	13	10,487,304	6,090,199
Trade and other receivables	14	300,266,612	206,399,741
Cash and cash equivalents	15	9,000	-
Total current assets		<u>516,935,987</u>	<u>425,495,732</u>
Total assets		<u>1,018,896,556</u>	<u>960,537,874</u>
EQUITY AND LIABILITIES			
Equity			
Stated capital	16	900,000,020	650,000,020
Accumulated loss		<u>(441,970,108)</u>	<u>(190,337,599)</u>
Total equity		<u>458,029,912</u>	<u>459,662,421</u>
Non-current Liabilities			
Retirement benefit obligations	17	582,078	627,059
Current liabilities			
Trade and other payables	18	66,301,051	74,073,342
Amount due to related parties	19	17,626,225	21,870,220
Short term loan	20	90,881,183	358,888,931
Bank overdraft	15	385,476,107	45,415,899
Total liabilities		<u>560,866,644</u>	<u>500,875,452</u>
Total equity and liabilities		<u>1,018,896,556</u>	<u>960,537,874</u>

The notes form an integral part of these financial statements.

Figures in brackets indicate deductions.

I certify that the financial statements of the Company comply with the requirements of the Companies Act No.7 of 2007.


 Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of the financial statements.
 Approved and signed for and on behalf of the Board.


 Director


 Director

April 29, 2019
 Colombo

KANSAI PAINTS LANKA (PRIVATE) LIMITED
STATEMENT OF CASH FLOWS

For the year ended 31st March,

	2019 <u>Rs.</u>	2018 <u>Rs.</u>
Cash flows from operating activities		
Loss before taxation	(251,750,509)	(164,402,162)
<i>Adjustment for:</i>		
Depreciation and amortisation of property, plant and equipment and intangible asse	28,172,892	16,992,348
Gain/(loss) on disposal of property, plant and equipment	(242,389)	529,557
Defined benefit plan cost	72,999	627,059
Amortisation of non-refundable deposit	480,257	480,257
Finance expenses	58,209,267	16,101,005
Revenue nature capital-work-in-progress expensed	414,094	-
Provision for impairment of trade receivables	6,268,280	-
Operating loss before working capital changes	<u>(158,375,108)</u>	<u>(129,671,937)</u>
Working capital adjustments:		
Increase in advances, prepayments and other receivables	(4,397,104)	(640,361)
(Increase)/decrease in inventories	6,832,720	(212,525,534)
Increase in trade and other receivables	(100,135,151)	(201,384,840)
Increase/(decrease) in trade and other payables	(7,772,291)	67,370,000
Increase/(decrease) in amount due to related parties	(4,243,995)	18,975,913
Cash used in operations	<u>(268,090,930)</u>	<u>(457,876,759)</u>
Income tax paid	-	(503,602)
Interest expense paid	(58,209,267)	(13,893,047)
Net cash used in operations	<u>(326,300,197)</u>	<u>(472,273,408)</u>
Cash flows from investing activities		
Proceeds on disposal of property, plant and equipment	5,500,000	-
Acquisition and construction of property, plant and equipment	-	(228,136,095)
Cash received in short term investment	-	140,000,000
Acquisition of intangible assets	(1,243,278)	(6,589,377)
Net cash flows used in investing activities	<u>4,256,722</u>	<u>(94,725,472)</u>
Cash flows from financing activities		
Proceeds from issue of ordinary shares	250,000,000	150,000,000
Net repayment of short term loan	(268,007,733)	358,888,931
Net cash flows from financing activities	<u>(18,007,733)</u>	<u>508,888,931</u>
Net increase in cash and cash equivalents	<u>(340,051,209)</u>	<u>(58,109,949)</u>
Cash and cash equivalents at the beginning of the period	(45,415,899)	12,694,050
Cash and cash equivalents at the end of the period (Note 15)	<u>(385,467,107)</u>	<u>(45,415,899)</u>

*The notes form an integral part of these Financial Statements.
Figures in brackets indicate deductions.*

KANSAI PAINTS LANKA (PRIVATE) LIMITED
STATEMENT OF CHANGES IN EQUITY

	Stated capital Rs.	Accumulated loss Rs.	Total equity Rs.
Balance as at 1st April 2017	500,000,020	(25,879,816)	474,120,204
Total comprehensive income for the period			
Loss for the year	-	(164,457,782)	(164,457,782)
Other comprehensive income	-	-	-
Transactions with owners directly recorded in equity			
Issue of ordinary shares	150,000,000	-	150,000,000
Balance as at 31st March, 2018	650,000,020	(190,337,599)	459,662,421
Total comprehensive income for the period			
Loss for the year	-	(251,750,489)	(251,750,489)
Other comprehensive income	-	117,980	117,980
Transactions with owners directly recorded in equity			
Issue of ordinary shares	250,000,000	-	250,000,000
Balance as at 31st March 2019	900,000,020	(441,970,108)	458,029,912

*The notes form an integral part of these financial statements.
Figures in brackets indicate deductions.*

1. REPORTING ENTITY

1.1 Domicile and legal form

Kansai Paints Lanka (Private) Limited (the "Company") is a limited liability company incorporated and domiciled in Sri Lanka. The Company was duly incorporated under the companies act No. 07 of 2007 on July 30, 2015. The registered office of the company is located at 146, Dawson Street, Colombo 02.

1.2 Principle activities and nature of operations

The principle activity of the Company is to manufacture paints (enamel and emulsion) and wood coating for the local and export market.

1.3 Parent enterprise and ultimate parent enterprise

The Company is owned by Kansai Nerolac Paints Limited, Mumbai, India which holds 60% of shares and The Capital Maharaja Organisation Limited which holds 40% shares. The Company's immediate parent is Kansai Nerolac Paints Limited and the ultimate parent is Kansai Paints Co. Ltd Japan.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of the Company comprises of the statement of financial position as at March 31, 2019 and the statements of profit or loss and other comprehensive income, changes in equity and statement of cash flows for the period then ended, together with the notes, have been prepared in accordance with Sri Lanka Accounting Standards (LKASs and SLFRSs) promulgated by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.

2.2 Responsibility for Financial Statements

The Board of Directors of the Company is responsible for the preparation and presentation of these financial statements as per the provisions of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards (SLFRSs/LKASs).

2.3 Approval of financial statements by Directors

The financial statements of the Company for the year ended March 31, 2019 were authorised for issue in accordance with a resolution of the Board of Directors on April 29, 2019.

2.4 Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following:

- Retirement benefit obligations are measured at the present value of the retirement benefit obligations as explained in Note 17 to the financial statements.

2.5 Comparative Information

The previous year figures and phrases have been reclassified whenever necessary to conform to current year presentation.

2.6 Going concern

The Directors have made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

2.7 Functional and presentation currency

The financial statements are presented in Sri Lankan rupees which is the functional currency of the Company.

2.8 Use of judgments and estimates

The preparation of the financial statements of the Company in conformity with Sri Lanka Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence actual results may differ from those estimates and judgmental decisions.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Impairment of trade receivables (Note 14.1)
- Retirement benefit obligations (Note 17)

2.8.1 Useful lives of depreciable assets

Management reviews its estimation of the useful lives of depreciable assets at each reporting date based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the useful life of certain property, plant and equipment.

2.9 Significant accounting judgments, estimates and assumptions

The financial statements are sensitive to assumptions and estimates made in measuring certain carrying amounts represented in the statement of financial position and amounts charged to the statement of comprehensive income. These could result in a significant risk of causing material adjustments to the carrying amounts of assets and liabilities which are disclosed in the relevant Notes to the Financial Statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Changes in accounting policies

The Company has adopted SLFRS 15 and SLFRS 9 with effect from 1 April 2018.

SLFRS 15 Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced LKAS 18 Revenue, LKAS 11 Construction contracts and related interpretations. Under SLFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer control-at a point in time or over time- requires judgement.

The Company has adopted SLFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognized at the date of initial application (i.e. 1 April 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under LKAS 18, and related interpretations, additionally the disclosures requirements in SLFRS 15 have not generally been applied to comparative information.

There was no impact on the comparative figures presented in the statement of financial position, statement of changes in equity and statement of cash flows. Further, the change in accounting policy has no impact on the reported amount in retained earnings as at 01 April 2018.

SLFRS 9 Financial Instruments

SLFRS 9 set out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces LKAS 39 Financial Instruments: Recognition and Measurement.

SLFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVOCI and FVTPL. The classification of financial assets under SLFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification and measurement of financial liabilities. Further, the change in accounting policy had no impact on the reported amount in retained earnings as at 01 April 2018.

3.2 Property, plant and equipment

3.2.1 Cost and valuation

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciate them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised

3.2 Property, plant and equipment

3.2.1 Cost and valuation (Contd..)

in the profit or loss as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement, when the asset is derecognised.

3.2.2 Depreciation

Depreciation is calculated on a straight-line basis on the cost or valuation of all Property, plant and equipment, in order to write off such amounts over the estimated useful lives of the assets.

The estimated useful lives are as follows:

Buildings	30 years
Plant and equipment	5 – 20 years
Computer and equipment	3 years
Motor vehicles	10 years
Furniture and fittings	5 years

The depreciation charges are determined separately for each significant part of an item of Property, plant and equipment and items of property plant and equipment are depreciated from the date that they are installed and are ready for use.

3.3 Intangible assets

3.3.1 Initial Recognition and measurement

The Company recognises intangible assets if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

Separately acquired intangible assets are measured on initial recognition at cost. The cost of such separately acquired intangible assets include the purchase price, import duties, non-refundable purchase taxes and any directly attributable cost of preparing the asset for its intended use.

3.3.2 Subsequent costs

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

3.3.3 Subsequent measurement

After initial recognition an intangible asset is stated at its costs less any accumulated amortization and any accumulated impairment losses.

The useful economic life of an intangible asset is assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life of the asset. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the

3.3 Intangible assets

3.3.3 Subsequent measurement (Contd..)

end of each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in the income statement.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

3.3.4 Intangible assets recognised by the company

3.3.4.1 Computer software

All computer software cost incurred and licensed for use by the company, which does not form an integral part of related hardware, which can be clearly identified and reliably measured with the probability of leading to future economic benefits, are capitalized under intangible assets.

The company amortises the computer software over period of 3 years.

3.4 Inventories

Inventories are valued at the lower of cost and net realizable value, after making due allowances for obsolete and slow moving items. Net realizable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

The cost incurred in bringing inventories to its present location and condition is accounted using the following cost formula.

Raw Material	At Weighted Average directly attributable cost
Finished Goods and Work-in-Progress	At Direct material cost, direct labour and appropriate proportion of production overheads

3.5 Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalised is calculated using the weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalised is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalised as from the commencement of the development work until the date of practical completion, i.e. when substantially all of the development work is completed. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalised on the purchase cost of a site of property acquired specifically for redevelopment, but only where activities necessary to prepare the asset for redevelopment are in progress.

3.6 Financial instruments

3.6.1 Financial instruments- Policy applicable from 01st April 2018 (Contd..)

3.6.1.1 Recognition and initial measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and financial liability or equity instrument of another entity.

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

3.6.1.2 Classification and subsequent measurement

3.6.1.2.1 Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designed as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

This assessment is referred to as the SPPI test and it is performed at an instrument level. The Company's financial assets classified under amortised cost includes trade and other receivable and cash and cash equivalents

A debt investment is measured at FVOCI if it meets both of the following conditions:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis. All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3.6 Financial instruments

3.6.1 Financial instruments- Policy applicable from 01st April 2018 (Cont..)

(b) Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio levels because this best reflects the way the business is managed and information is provided to management. The information considered includes:

The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

(c) Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- Terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

KANSAI PAINTS LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

3.6 Financial instruments

3.6.1 Financial instruments- Policy applicable from 01st April 2018 (Cont..)

(d) Subsequent measurement and gains and losses

Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
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(e) Impairment

Trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

In certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ECL are discounted at the effective interest rate of the financial asset.

(f) Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the trade receivables.

(g) Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

3.6.2 Financial instruments- Policy applicable before 01st April 2018

3.6.2.1 Financial assets

Financial assets are recognized in the Statement of Financial Position when, and only when, the Company becomes a party to the contractual provisions of the financial instrument.

3.6.2.2 Initial recognition and measurement

The Company classifies its financial assets as loans and receivables when appropriate. The classification depends on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using effective interest rate (EIR) method less impairment.

Loans and receivables are presented as "Trade and other receivables" and "Amounts due from related parties" in the statement of financial position.

3.6 Financial instruments

3.6.2 Financial instruments- Policy applicable before 01st April 2018 (Contd..)

3.6.2.3 Impairment

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income.

3.6.2.4 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

3.6.3 Financial liabilities

3.6.3.1 Initial recognition and measurement

When appropriate the Company determines the classification of its financial liabilities at initial recognition. The company classifies financial liabilities as other financial liabilities.

3.6.3.2 Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

3.6.4 Other financial liabilities – loans and borrowings

After initial recognition, interest bearing borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the statement of comprehensive income.

3.6.4.1 Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

KANSAI PAINTS LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

3.6 Financial instruments (Contd..)

3.6.5 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts; and
- There is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.7 Cash and cash equivalents

Cash and Cash Equivalents are defined as cash in hand, demand deposits and short term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of statement of cash flows, cash and cash equivalents consist of favorable cash balances net of outstanding bank overdrafts.

3.8 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is higher of asset's or cash generating unit's (CGU) fair value less costs to sell and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

3.9 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of comprehensive income net of any reimbursement.

KANSAI PAINTS LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

3.10 Taxation

3.10.1 Current taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General of Inland Revenue. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of statement of financial position.

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act.

3.10.2 Deferred taxation

Deferred income tax is provided, using the liability method, on all temporary differences at the statement of financial position date sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred income tax relating to item recognized directly in equity is recognized in equity and not in the income statement.

3.11 Employee benefits

3.11.1 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3.11 Employee benefits (Contd..)

3.11.2 Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognized in the financial statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the reporting date. The defined benefit obligation is calculated by a Qualified Actuary as at the reporting date using as recommended by LKAS 19 "Employee benefits".

The actuarial valuation involved making assumptions about discount rate, salary increment rate and balance service period of the employees. Due to the long-term nature of the plans such estimates are subject to significant uncertainty.

Liabilities are not externally funded.

3.11.3 Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contribution to a separate entity and will have no legal or constructive obligation to pay further amounts. All employees of the Company are members of the Private Provident Fund/ Employees' Provident Fund and Employees' Trust Fund, to which their employers contribute 12% - 15% and 3% respectively of such employees' basic or consolidated wage or salary, cost of living and all other allowances. Contributions to defined benefit plans, EPF & ETF, are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

3.12 Revenue recognition

3.12.1 Revenue recognition- Policy applicable from 01st January 2018

- a) Sale of goods
An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good to a customer. An asset is transferred when (or as) the customer obtains control of that asset.
- b) Interest
Interest income is recognized on a time-proportion basis using the effective interest method.
- c) Others
Other income is recognized on an accrual basis.

Gains and losses arising from incidental activities to main revenue generating activities and those arising from a Company of similar transactions which are not material, are aggregated, reported and presented on a net basis.

3.12.2 Revenue recognition- Policy applicable before 01st April 2018

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of discounts and sales taxes. Following specific criteria are used for the purpose of recognition of revenue.

3.12 Revenue recognition (Contd..)

3.12.3 Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been passed to buyers, the recovery of the consideration is probable, the associated costs and return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

3.12.4 Interest income

Interest income is recognized as the interest accrues. Interest income is included in finance income in the statement of profit or loss.

3.12.5 Other income

Other income is recognized on an accrual basis.

3.13 New Accounting standards issued but not yet effective

SLFRS 16 - Leases - effective for annual periods beginning on or after 1st of January 2019.

SLFRS 16 replaces LKAS 17 Leases and related interpretations. SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under LKAS 17. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

SLFRS 16 is effective for annual periods beginning on or after 1st January 2019. Early application is permitted, but not before an entity applies SLFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

During the year, the Company performed an impact assessment of SLFRS 16 and determined that its impact on the financial statements would be insignificant. The assessment is based on currently available information and may be subject to changes arising from future analysis.

KANSAI PAINTS LANKA (PRIVATE) LIMITED
 NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March,

	2019 <u>Rs.</u>	2018 <u>Rs.</u>
4 REVENUE FROM CONTRACTS WITH CUSTOMERS		
Revenue - Finished Goods	291,302,864	193,112,143
Revenue - Raw Material	21,152,425	13,038,206
	<u>312,455,290</u>	<u>206,150,349</u>
5 OTHER INCOME		
Gain on disposal of property, plant and equipment	242,389	-
Scrap sales income	778,700	832,537
	<u>1,021,089</u>	<u>832,537</u>
6 LOSS FROM OPERATIONS		
<i>Is stated after charging all expenses including the following:</i>		
Auditor's remuneration		
- Statutory audit fee	270,000	250,000
Depreciation of property, plant and equipment (Includes amounts charged to Cost of Sales)	25,833,030	16,992,348
Amortization of intangible assets	2,339,862	529,557
Staff cost (6.1)	50,113,085	33,664,215
Ground rent on operating lease	3,342,168	3,245,452
Administrative service charges to related party	5,077,029	4,326,504
Non refundable lease deposit amortised	480,257	480,257
Revenue nature capital-work-in-progress expensed	414,094	-
Provision for impairment of trade receivables	6,268,280	-

For the year ended 31st March,

	2019 <u>Rs.</u>
6.1 Staff cost	
Salaries and wages and other related costs	40,938,609
Defined contribution cost- EPF and ETF	9,101,476
Defined benefit plan cost- retiring gratuity	72,999
	<u>50,113,085</u>
Number of employees at the year end	77
7 NET FINANCE EXPENSE	
Finance income	
Interest income	-
	<u>305,602</u>
Finance expense	
Interest on bank overdraft	27,355,573
Short term loan interest	30,853,694
	<u>58,209,267</u>
Net finance expense	<u>(58,209,267)</u>
	<u>(15,795,403)</u>

KANSAI PAINTS LANKA (PRIVATE) LIMITED
 NOTES TO THE FINANCIAL STATEMENTS

8 INCOME TAX EXPENSE

Current tax expense:

As per the Inland Revenue Act No.24 of 2017 and subsequent amendments thereto the company is liable to income tax at 28% of the adjusted taxable profit for the year.

For the year ended 31st March,

	2019 <u>Rs.</u>	2018 <u>Rs.</u>
8.1 Reconciliation of the accounting profit to income tax expense		
Accounting loss before tax	(251,750,509)	(164,402,162)
Less: Interest Income	-	(305,602)
Add: Disallowed expenses	34,606,489	32,270,092
Less: Claims	(97,006,928)	(51,873,870)
Statutory loss from business	(314,150,948)	(184,311,542)
Taxable Income	-	305,602
Utilisation of tax losses	-	(106,961)
	<u>(314,150,948)</u>	<u>(184,204,581)</u>
Income tax for the year @ 28%	-	55,620
Deferred tax	-	-
	<u>-</u>	<u>55,620</u>
8.2 Tax loss carried forward		
Tax loss brought forward	207,077,744	22,873,163
Adjustment to tax loss- 2017/2018	31,887,457	-
Tax loss incurred during the year	314,150,948	184,311,542
Tax loss claimed during the year	-	(106,961)
Tax loss carried forward	<u>553,116,149</u>	<u>207,077,744</u>

8.3 Deferred tax asset has not been recognised in respect of the following items as the probability that future taxable profits will be available against which the Company can utilize the benefits thereon is uncertain.

As at 31st March,

	2019		2018	
	Temporary difference <u>Rs.</u>	Deferred tax asset/(liability) <u>Rs.</u>	Temporary difference <u>Rs.</u>	Deferred tax asset/(liability) <u>Rs.</u>
Retirement benefit obligations	582,078	162,982	627,059	175,577
Carried forward tax losses	553,116,149	154,872,522	207,077,744	57,981,768
Property plant & equipment	(171,747,668)	(48,089,347)	(33,977,715)	(9,513,760)
	<u>381,950,559</u>	<u>106,946,156</u>	<u>173,727,087</u>	<u>48,643,584</u>

KANSAI PAINTS LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

9 A PROPERTY, PLANT AND EQUIPMENT

	Buildings <u>Rs.</u>	Plant and equipment <u>Rs.</u>	Computer and <u>Rs.</u>	Motor- Vehicle <u>Rs.</u>	Furniture & Fittings <u>Rs.</u>	Total <u>Rs.</u>
Cost						
Balance as at 1 st April 2017	-	-	184,810	4,818,580	-	5,003,390
Additions during the year (Including transfer from CWIP)	274,974,819	146,095,180	15,853,108	10,295,000	2,288,336	449,506,442
Balance as at 31 st March 2018	274,974,819	146,095,180	16,037,918	15,113,580	2,288,336	454,509,832
Additions during the year	20,716,077	47,117,002	1,187,154	-	95,211	69,115,445
Disposals during the year	-	-	-	(6,135,000)	-	(6,135,000)
Balance as at 31 st March 2019	295,690,896	193,212,182	17,225,071	8,978,580	2,383,547	517,490,276
Accumulated depreciation						
Balance as at 1 st April 2017	-	-	46,155	396,048	-	442,203
Charge for the year	6,967,724	5,627,394	2,807,676	1,353,969	235,585	16,992,348
Balance as at 31 st March 2018	6,967,724	5,627,394	2,853,831	1,750,017	235,585	17,434,551
Charge for the year	9,629,212	8,898,831	5,638,255	1,205,449	461,283	25,833,030
Disposal during the year	-	-	-	(877,389)	-	(877,389)
Balance as at 31 st March 2019	16,596,936	14,526,225	8,492,086	2,078,077	696,867	42,390,191
Carrying value						
As at 31 st March 2019	279,093,960	178,685,958	8,732,985	6,900,503	1,686,679	475,100,085
As at 1 st April 2018	268,007,095	140,467,786	13,184,086	13,363,563	2,052,751	437,075,281

9 B INTANGIBLE ASSETS

Computer software

Costs

Balance as at 1st April	6,589,377	-
Acquisition during the year	1,243,278	6,589,377
Balance as at 31 st March	7,832,655	6,589,377

Amortization

Balance as at 1st April	529,557	-
Amortization for the year	2,339,862	529,557
Balance as at 31 st March	2,869,419	529,557

Carrying amount as at 31st March

	2019 <u>Rs.</u>	2018 <u>Rs.</u>
	6,589,377	-
	1,243,278	6,589,377
	7,832,655	6,589,377
	529,557	-
	2,339,862	529,557
	2,869,419	529,557
	4,963,236	6,059,819

KANSAI PAINTS LANKA (PRIVATE) LIMITED
 NOTES TO THE FINANCIAL STATEMENTS

<i>As at 31st March,</i>	2019	2018
	<u>Rs.</u>	<u>Rs.</u>
10 CAPITAL WORK-IN-PROGRESS		
Balance at the beginning of the year	69,529,539	290,899,886
Cost incurred during the year	-	199,699,652
Cost capitalised during the year	(69,115,445)	(421,069,999)
Cost expensed during the year	(414,094)	-
Balance at the end of the year (10.1)	<u>-</u>	<u>69,529,539</u>
10.1 Machinery & equipment	-	14,805,452
Construction and other costs	<u>-</u>	<u>54,724,087</u>
	<u>-</u>	<u>69,529,539</u>
11 NON REFUNDABLE LEASE DEPOSIT		
Balance at the beginning of the period	22,857,761	23,338,018
Amortized during the period	(480,257)	(480,257)
	<u>22,377,505</u>	<u>22,857,761</u>
Current portion of the non refundable lease deposit	<u>480,257</u>	<u>480,257</u>
Non-current portion of the non refundable lease deposit	<u>21,897,248</u>	<u>22,377,503</u>

The Company entered into a lease of a land in the Koggala Export Processing Zone for a period of 50 years from 28th of October 2015 and paid a non-refundable deposit amounting to Rs.11,812,900 (including VAT) and an additional payment of Rs.12,199,961 as land tax. The total of these amounts are amortized over the lease period of 50 years.

<i>As at 31st March,</i>	2019	2018
	<u>Rs.</u>	<u>Rs.</u>
12 INVENTORY		
Raw materials	133,295,091	136,231,270
Finished goods	47,645,765	55,083,251
Packing materials	24,751,958	21,211,013
	<u>205,692,814</u>	<u>212,525,534</u>

Details of inventories pledged as security for banking facilities obtained have been given in Note 20 in the financial statements.

13 DEPOSITS, ADVANCES AND PREPAYMENTS		
Prepaid expenses	3,949,227	3,266,624
Prepaid annual ground rent Factory	3,202,038	-
Electricity connection deposit - Factory Connection	1,500,000	1,500,000
Employee Accommodation Deposits	330,000	290,000
Security deposit on electricity connection	50,000	50,000
Staff advance	1,456,038	983,576
	<u>10,487,304</u>	<u>6,090,199</u>

KANSAI PAINTS LANKA (PRIVATE) LIMITED
 NOTES TO THE FINANCIAL STATEMENTS

As at 31st March,

	2019 <u>Rs.</u>	2018 <u>Rs.</u>
14 TRADE AND OTHER RECEIVABLES		
Trade Receivables	270,829,530	154,721,034
Provision for impairment of trade receivables (Note 14.1)	<u>(6,268,280)</u>	-
	264,561,250	154,721,034
Notional Tax Recoverable	29,770	85,389
Economic Service Charge recoverable	1,593,049	-
Value added Tax recoverable	32,584,591	44,933,903
Withholding Tax recoverable	30,560	30,560
Nation Building Tax recoverable	821,331	3,423,787
Other receivables	646,061	3,205,069
	<u>300,266,612</u>	<u>206,399,741</u>

Details of trade receivables pledged as security for banking facilities obtained have been given in Note 20 in the financial statements.

14.1 Provision for impairment of trade receivables

Balance as at the beginning of the year	-	-
Provision for the year	6,268,280	-
Balance as at the end of the year	<u>6,268,280</u>	<u>-</u>

15 CASH AND CASH EQUIVALENTS

Components of cash and cash equivalents comprise of the following:

Favourable cash and cash equivalent balances

Cash at bank	9,000	-
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Unfavourable cash and cash equivalent balances

Bank overdraft (Note 15.1)	<u>(385,476,107)</u>	<u>(45,415,899)</u>
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Cash and cash equivalents for the purpose of statement of cash flows:	<u>(385,467,107)</u>	<u>(45,415,899)</u>
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15.1 The overdraft facilities obtained by the Company is against a Corporate Gurantee provided by Kansai Nerolac Paints Limited (India).

As at 31st March,

	2019 <u>Rs.</u>	2018 <u>Rs.</u>
16 STATED CAPITAL		
Issued and fully-paid number of shares		
Ordinary shares	<u>900,000,020</u>	<u>650,000,020</u>
16.1 Number of shares	2019	2018
Shares at the beginning of the year	65,000,002	50,000,002
Shares issued during the year	25,000,000	15,000,000
Shares at the end of the year	<u>90,000,002</u>	<u>65,000,002</u>

Rights, preference and restrictions of classes of capital

The holders of ordinary shares are entitled to receive dividend from time to time and are entitled to one vote per share at meetings of the Company.

KANSAI PAINTS LANKA (PRIVATE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS

17 <u>RETIREMENT BENEFIT OBLIGATIONS</u>	2019	2018
	<u>Rs.</u>	<u>Rs.</u>
Balance at the beginning of the year	627,059	-
<u>Expenses recognised in the statement of profit or loss</u>		
Current service cost	27,941	627,059
Interest cost	45,058	-
	<u>72,999</u>	<u>627,059</u>
<u>Expenses recognised in the statement of other comprehensive income</u>		
Actuarial (gain)/loss	(117,980)	-
Benefit paid	-	-
Balance at the end of the year	<u>582,078</u>	<u>627,059</u>

LKAS 19 requires the use of actuarial techniques to make a reliable estimate of the amount of retirement benefit that the employees have earned in return for their service in the current and prior periods and discount that benefit using the Projected Unit Credit Method in order to determine how much benefit is attributable to the current and prior periods and to make estimates about demographic variables and financial variables that will influence the cost of the benefit.

The following key assumptions were made in arriving at the above figure using the gratuity formula as per LKAS 19.

<i>As at 31st March,</i>	2019	2018
	<u>Rs.</u>	<u>Rs.</u>
Discount rate	12%	11%
Rate of salary increment	10%	10%
Staff turnover	25%	28%
Retirement age	55 years	55 years

17.1 Sensitivity analysis

The following table demonstrates the sensitivity to reasonably possible changes at the reporting date in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the comprehensive income and the financial position to the effect of the assumed changes in discount rate and rate of salary increment is given below:

	Discount Rate		Rate of salary increment	
	1% increase	1% decrease	1% increase	1% decrease
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Impact on financial position	(33,325)	36,076	36,495	(34,263)

18 TRADE AND OTHER PAYABLES

Trade payables	48,573,722	43,714,550
Contractor payable	-	11,454,855
Marketing agency payables	6,160,141	7,155,300
Other Payables	11,567,188	11,748,637
	<u>66,301,051</u>	<u>74,073,342</u>

19 AMOUNT DUE TO RELATED PARTIES

The Capital Maharaja Organisation Ltd	-	6,692,812
Kansai Nerolac Paints Limited	17,039,491	9,117,297
Disposable Soft Goods(Pvt) Ltd	-	3,529,240
Harrisons Shipping (Pvt) Ltd	-	2,530,871
International Cosmetics (Pvt) Ltd	586,735	-
	<u>17,626,225</u>	<u>21,870,220</u>

19.1 These amounts are unsecured and payable on demand. No interest is payable on these balances.

20 RELATED PARTY TRANSACTIONS

(a) Identity of related parties

The Company carries out transactions in the ordinary course of business with parties who are defined as related parties as per Sri Lanka Accounting Standard - LKAS 24 Related Party Disclosures.

(b) Transactions with key management personnel

Key Management Personnel comprise of Directors of the Company.

(i) Loans to directors

There were no loans given to Directors of the Company during the financial period or as at the period end.

(ii) Key management personnel compensation

No compensation was paid to/on behalf of key management personnel of the Company.

Name of the related party	Nature of relationship	Details of transactions	Transactions during the year Rs.	Balance as at 31.03.2019 Rs.	Balance as at 31.03.2018 Rs.
Kansai Nerolac Paints Ltd	Parent	Consultancy Fee	(4,947,619)	(17,039,491)	(9,117,297)
		Royalty Payment	(2,974,574)		
		Issue of shares	(150,000,000)		
		Receipt of issue proceeds	150,000,000		
The Capital Maharaja Organisation Ltd	Subsidiary of Capital Holdings (Pvt) Ltd	Administration Services fee	(5,077,029)	-	(6,692,812)
		Administration Services Payment	5,500,115		
		Salary reimbursement	(36,148,729)		
		Salary reimbursement payment	42,418,455		
		Issue of shares	(100,000,000)		
Harrisons Shipping (Pvt) Ltd	Capital Holdings	Clearing Charges	(9,790,726)	-	(2,530,871)
		Settlement of Expenses	12,321,596		
Disposable Soft Goods (Pvt) Ltd	Subsidiary of Capital	Office Rent Expense	(3,465,072)	-	(3,529,240)
		Settlement of Expenses	6,994,312		
International Cosmetics (Pvt) Ltd	Subsidiary of Capital	Secondment Charges	(7,040,816)	(586,735)	-
		Settlement of Expenses	6,454,082		

21 SHORT TERM BORROWINGS

Financial institutions	90,881,183	208,888,931
Related parties	-	150,000,000
	<u>90,881,183</u>	<u>358,888,931</u>

- Short term borrowings are payable over a period of 45-120 days. Interest is payable at AWPLR+1.5% - 3%.

- The receivables and inventories of the Company have been mortgaged to financial institutions to the value of the borrowings.

- No security has been provided on behalf of short term borrowings from related parties

22 CAPITAL COMMITMENTS

There were no capital commitments as at the reporting date that require adjustments to or disclosure in the financial statements.

23 CONTINGENT LIABILITIES

There were no material contingent liabilities outstanding as at the reporting date that require adjustments to or disclosure in the financial statements.

24 EVENTS OCCURRING AFTER THE REPORTING DATE

There were no material events occurring after the reporting date that require adjustments to or disclosure in the financial statements.

25 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

25.1 Overview

The Company has exposure to the following risks from financial instruments:

- (i) Credit risk
- (ii) Liquidity risk
- (iii) Market risk

Risk management framework

The company's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities. The company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to Financial Instrument fails to meet its contractual obligations, and arises principally from the Company's receivables.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was;

	<u>Note</u>	<u>Carrying amount</u>	
		<u>2019</u>	<u>2018</u>
		<u>Rs.</u>	<u>Rs.</u>
Deposits, Advances And Prepayments	13	10,487,304	6,090,199
Trade and other receivables	14	300,266,612	206,399,741
Cash at bank	15	9,000	-

25 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the contractual maturities of financial liabilities as at the year end.

As at 31 st March 2019	Carrying Amount Rs.	0-6 Months Rs.	6-12 Months Rs.	1-2 Years Rs.	2-5 Years Rs.	More than 5 years Rs.
Financial liabilities (Non-Derivatives)						
Trade and other payables	66,301,051	66,301,051	-	-	-	-
Amount due to related parties	17,626,225	17,626,225	-	-	-	-
Short term loan	90,881,183	90,881,183	-	-	-	-
Total	174,808,459	174,808,459	-	-	-	-
As at 31 st March 2018	Carrying Amount Rs.	0-6 Months Rs.	6-12 Months Rs.	1-2 Years Rs.	2-5 Years Rs.	More than 5 years Rs.
Financial liabilities (Non-Derivatives)						
Trade and other payables	74,073,342	74,073,342	-	-	-	-
Amount due to related parties	21,870,220	21,870,220	-	-	-	-
Short term loan	358,888,931	358,888,931	-	-	-	-
Total	74,073,342	74,073,342	-	-	-	-

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(iii) Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

Interest rate risk is the risk to the company's earnings and economic value of equity ("EVE") arising from adverse movements in interest rates.

25 **FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (CONTINUED)**

25.2 **Carrying amount and fair value of financial instruments**

Fair values of financial assets and financial liabilities, together with the carrying amounts in the statement of financial position, are as

	Note	Financial assets- Amortised cost Rs.	Other financial liabilities Rs.	Total carrying amount Rs.	Fair value Rs.
31st March 2019					
Financial assets					
Trade and other receivables	14	265,207,311	-	265,207,311	265,207,311
Cash and cash equivalents	15	-	-	9,000	9,000
		<u>265,207,311</u>	<u>-</u>	<u>265,216,311</u>	<u>265,216,311</u>
Financial liabilities					
Trade and other payables	14	-	66,301,051	66,301,051	66,301,051
Amounts due to related parties	19	-	17,626,225	17,626,225	17,626,225
Short term loan	21	-	90,881,183	90,881,183	90,881,183
Bank overdraft	15	-	385,476,107	385,476,107	385,476,107
		<u>-</u>	<u>174,808,459</u>	<u>174,808,459</u>	<u>174,808,459</u>
31st March 2018					
Financial assets					
Trade and other receivables	14	157,926,103	-	157,926,103	157,926,103
Cash and cash equivalents	15	-	-	-	-
		<u>157,926,103</u>	<u>-</u>	<u>157,926,103</u>	<u>157,926,103</u>
Financial liabilities					
Trade and other payables	14	-	74,073,342	74,073,342	74,073,342
Amounts due to related parties	19	-	21,870,220	21,870,220	21,870,220
Short term borrowings	21	-	358,888,931	358,888,931	358,888,931
Bank overdraft	15	-	45,415,899	45,415,899	45,415,899
		<u>-</u>	<u>500,248,393</u>	<u>500,248,393</u>	<u>500,248,393</u>

25.3 The Company does not have any financial instruments designated at fair value through profit or loss on initial recognition as at 31st March 2019 (2018- Nil).